Before the
Federal Communication Commission
Washington, D.C. 20554

In the Matter of	)	
	)	
Federal-State Joint Board on Universal Service	)	CC Docket No. 96-45
	)	
1998 Biennial Regulatory Review – Streamlined Contributor Reporting Requirements Associated with Administration of Telecommunications Relay Service, North American Numbering Plan, Local Number Portability, and Universal Service Support Mechanisms	)	CC Docket No. 98-171
	)	
Telecommunications Services for Individuals with Hearing and Speech Disabilities, and the Americans with Disabilities Act of 1990	)	CC Docket No. 90-571
	)	
Administration of the North American Numbering Plan and North American Numbering Plan Cost Recovery Contribution Factor and Fund Size	)	CC Docket No. 92-237 NSD File No. L-00-72
	)	
Number Resource Optimization	)	CC Docket No. 99-200
	)	
Telephone Number Portability	)	CC Docket No. 95-116
	)	
Truth-in-Billing and Billing Format	)	CC Docket No. 98-170

Staff Study Regarding Alternative Contribution Methodologies
Comments of:
Fred Williamson and Associates, Inc. ("FW&A")
On behalf of:

Chouteau Telephone Company, an Oklahoma ILEC
H&B Telephone Communications, Inc., a Kansas ILEC
Moundridge Telephone Company, Inc., a Kansas ILEC
Pine Telephone Company, Inc., an Oklahoma ILEC
Pioneer Telephone Association, Inc., a Kansas ILEC
Totah Telephone Company, Inc., a Kansas and Oklahoma ILEC
Twin Valley Telephone, Inc., a Kansas ILEC
(Collectively, "ILECs")

March 31, 2003

BACKGROUND

In a Public Notice released on February 26, 2003, the Commission sought comment on a staff study related to alternative methodologies for calculating contribution to the federal universal service support mechanisms. The staff study estimates the potential assessment levels assuming continuation of the revenue-based methodology, and for three connection-based proposals: 1) A minimum contribution obligation on all interstate telecommunications carriers (based on total Interstate revenues), and a flat rate charge for each end user connection (Proposal 1); 2) Assessment of all connections purely based on capacity and share contribution obligations for each switched end-user connection between access and transport providers[1] (Proposal 2); and 3) Assessment to access providers of switched connections based on their working telephone numbers (Proposal 3). Previously, essential data contained in these studies was missing from the public record. The staff study provides valuable insight into the impact of the various proposals contained in the *Report and Order and Second Further Notice*.[2] FW&A filed comments in response to the Second Further Notice. In these comments FW&A acknowledged that:

> It is difficult to analyze the precise impacts of the connection-based proposals. Key information is lacking from the public record, especially with regard demand for high-capacity connections, to accurately assess impacts. FW&A also did not have access to information regarding paging providers. Before the Commission can make a reasoned decision on the impact of capacity-based assessments, it is apparent that additional information is necessary.

---

[1] Under this proposal non-presubscribed IXCs would be assessed contributions on the basis of Interstate revenues.

[2] *See Federal-State Joint Board on Universal Service,* CC Docket No. 96-45, Report and Order and Second Further Notice of Proposed Rulemaking, FCC 02-329 (rel. December 13, 2002) (*Report and Order and Second Further Notice*)

The Staff data and estimates provide essential information that was previously lacking from the record. FW&A appreciates the significant work performed by the FCC Staff. FW&A submits these comments in response to the Staff study.

SUMMARY OF FW&A COMMENTS

With respect to the current revenue-based system and the proposed connection-based contribution mechanisms, FW&A's Comments filed in response to the Second Further Notice of Proposed Rule Making (FNPRM) asserted the following:

- The current revenue-based system provides for the most equitable mechanism for USF contribution assessments. The changes adopted by the Commission related to the wireless safe harbor percentages for the revenue-based USF contribution system should allow the fund to be more sustainable.
- Should the Commission elect to adopt a connection-based methodology in the future, the second option (Proposal 2) contained in the FNPRM that proposes splitting connection-based contributions between transport (IXCs or toll service providers) and access providers best conforms with the "equitable and nondiscriminatory" requirements contained in the Act.
- The other "connection-based" proposals contained in the FNPRM produce inequitable results and fail to meet the requirements of the Act by failing to reasonably depict the relative levels of Interstate services provisioned by telecommunications carriers.
- The implementation of the FNPRM proposed capacity-based charges for multi-line and high capacity services could lead to excessive USF

assessments on high capacity services and should be reduced to reflect levels that more closely align with the relative prices/revenues associated with these services.

COMMENTS ON FCC STAFF ANALYSIS

The analysis prepared by the FCC Staff supports the recommendations FW&A made in its Comments. The one possible exception is the impact of the connection-based assessment proposal on assessments for high-capacity services. Based on Staff data, it appears that the impacts on high-capacity services are mixed. Assessments for some high- capacity services would be more than the current revenue-based assessments, while others would be less. Below, FW&A discusses how the FCC Staff study supports FW&A's recommendations concerning the universal service contribution mechanism.

The Staff Study Demonstrates that the Revenue-Based Mechanism Should be Sustainable.

The Staff estimates of revenue contribution bases for 2002 through 2007 support that the current revenue-based methodology is sustainable. As part of their analysis of assessment mechanisms, Staff estimated the impact of continuing the current revenue-based methodology. The Staff study estimates the revenue contribution bases using several assumptions. Essentially, the Staff approach was to estimate lines and then translate the number of lines into revenues. The Staff study accounted for the change in the wireless safe harbor recently adopted by the Commission and the expected increase in interstate revenues attributable to wireless services. Staff also incorporated into its estimates significant reductions in the level of wireline Interstate toll revenues.

Overall, the Staff study assumes a decline in wireline interstate-switched toll service revenues of 35 percent by 2007. Reductions were also forecasted for payphone revenues. In spite of these estimated reductions, the overall revenue contribution base estimated by staff does not decline from the 2002 levels. The table below summarizes the Staff projections.

Year	Estimated Total Contribution Base
2002	$76.4B
2003	$80.1B
2004	$80.2B
2005	$80.1B
2006	$78.9B
2007	$76.8B

The forecasts prepared by the Staff provide evidence that the revenue contribution base is sustainable. It is important to note that in the companion wireline broadband proceeding (CC Docket No. 02-33), the Commission is considering whether to assess all facilities-based Internet Service Providers for USF contributions. This was not incorporated in the Staff estimates and should this occur, it could increase the revenue contribution base over time. Thus, as previously asserted by FW&A, evidence on the record, including the FCC Staff study, does not provide compelling support for the replacement of the revenue-based assessment mechanism.

If a Connection-Based Proposal Is Adopted, Proposal 2 Best Meets the "Equitable and Non-Discriminatory Requirements of the Act.

The table below summarizes the relative contribution percentages developed by Staff for each of the proposals. For purposes of comparison, FW&A has only shown the share of contributions by industry segment for 2004. This demonstrates the anticipated changes in the percentages of assessments for industry segments that are associated with the connection-based proposals.

Share of Contributions by Industry Segment				
	Estimated 2004			
Industry Segment	Revenue Based	Connection-Based Proposal 1	Connection-Based Proposal 2	Telephone Number Based
IXC	48%	23%	34%	14%
LEC	28%	49%	23%	58%
CMRS	24%	28%	41%	28%

As shown in the table, IXCs are currently assessed approximately half of the contributions under the revenue-based mechanism. All of the connection-based proposals, according to the FCC Staff analysis, lower the percentage of contributions, by IXCs. Connection-Based Proposal 1 and the Telephone Number-Based proposal drastically lower IXC assessments and transfer them to LECs even though LECs are not experiencing increases in levels of interstate services used by their customers. For CMRS providers, this proposal does not substantially increase the assessments, in-spite of the fact that interstate toll usage attributable to CMRS services is increasing significantly. These proposals do not reflect the level of interstate services provided by the respective industry segments. Connection-Based Proposal 2 lowers IXC assessment levels, but not in such drastic fashion as the other connection-based proposals.

LEC contribution levels remain approximately the same and CMRS assessments increase.[3] The increase in CMRS percentages appropriately reflects the fact that CMRS providers typically provision their own interstate toll service and interstate toll usage from cellular phones is significant due to customers not incurring additional charges for toll services. For the connection-based proposals under review, the FCC Staff analysis shows that Connection-Based Proposal 2 best depicts the levels of interstate services being provided by the respective segments. Consequently, this proposal best meets the "equitable and nondiscriminatory" requirements of the Act.

The Staff Study Shows that the Connection-Based Assessment will Result in Higher Assessments for Multi-line Service and Lower Assessments for High Capacity Private Line Services.

As mentioned previously, FW&A, when filing its initial Comments, did not have sufficient information available to evaluate the impact of capacity-based connections for multi-line and high capacity services. FW&A expressed concerns that capacity-based connections could be a significant deterrent to the expansion of high capacity services, if imposed at high contribution rates. FW&A provided analyses that showed that the capacity-based connections for high capacity services appeared to be substantially greater than the pricing relationships of high capacity services to voice-grade services. The FCC Staff Study alleviates some of these concerns and in fact shows that assessments for

---

[3] In the comments filed in response to the FNPRM, FW&A estimated that the USF contributions under Proposal 2 would be dispersed among the industry segments as follows: IXCs – 50%, LECs – 30%, and Mobile – 20%. This assumed that all interexchange services, including Mobile/CMRS, were classified as IXC services. The FCC study classifies all transport or toll connections for wireless services as CMRS, assuming that all wireless toll-related services are pre-subscribed to the CMRS provider. This is a reasonable assumption. FW&A has revised its analysis to include the transport connections in the CMRS category. The revised study shows that the Mobile/CMRS contribution percentage increases to approximate 40%, which is similar to the result obtained in the FCC Staff study.

private line, high capacity services are reduced under the connection-based proposals. The table below shows the estimated assessments developed by the FCC Staff for high-capacity services. For purposes of comparison, the table compares the revenue-based assessment with the connection-based assessments for 2004.

Summary of Multi-line and High Capacity Assessments				
	Estimated 2004			
Description	Revenue Based	Connection-Based Proposal 1	Connection-Based Proposal 2	Telephone Number Based
Presubscribed multi-line business trunk	$0.67	$2.62	$1.41	*
20 exchange service trunks provided via a T1	$13.45	$52.38	$28.29	*
T1 configured as 20 presub. exch service trunks	$13.45	$41.90	$22.63	*
T1 inter. private line priced at $700 per mo.	$67.31	$41.90	$22.63	$15.86
DS3 inter. private line priced at $7,000 per mo.	$673.12	$586.64	$316.89	$221.99
OC3 inter. private line priced at $17,500 per mo.	$1,682.80	$879.96	$475.33	$332.98

* Would depend on the number of phone numbers assigned; one extension=$0.99 and a T1 configured as 100 direct dialed phones would be $99.10.

As shown in the table, assessments for T1, DS3 and OC3 private lines would decrease under the connection-based proposals. However, assessments for multi-line business trunks and exchange service trunks provided over T1s would increase substantially under the connection-based proposals. The Staff study demonstrates that the Commission should use caution if it adopts a connection-based mechanism, since assessments for some multi-line trunks and high capacity services could increase significantly.[4]

[4] In this proceeding, the Commission is not considering assessments on broadband services that are used to provide Internet services. Currently, only the LEC's DSL services are subject to USF assessments. It appears that the Staff Study treated these connections as residential connections and did not apply capacity-based weightings to these services. FW&A supports that if the Commission decides to continue USF assessments in the *Wireline Broadband Proceeding*, then the LEC's DSL services should not be subject to

Conclusion

The FCC Staff study data reinforces several of the positions supported in FW&A's Comments filed in response to the FNPRM. The Study supports that:

- The current revenue-based assessment mechanism is sustainable.
- If a connection-based assessment is adopted, Proposal 2 provides the approach that best meets the "equitable and non-discriminatory" requirements of the Act.
- The connection-based assessment mechanism can substantially increase assessments for some multi-line or high-capacity services and the Commission should use caution so that adverse impacts on these services do not result.

capacity-based assessments and should be assessed the same connection-based amount as residential or single-line business services.